

FISCAL NOTE

Bill #: HB0760

Title: Montana student citizen scholarships

Primary Sponsor: Dowell, T

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

FY 2004 Difference

FY 2005 Difference

Expenditures:

General Fund

\$0

\$1,444,514

State Special Revenue-Scholarship Fund

\$0

\$17,740

Revenue:

State Special Revenue -Scholarship Fund

\$0

\$6,559,000

Net Impact on General Fund Balance:

\$0

(\$1,444,514)

- | | |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input checked="" type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. This bill would place a referendum on the November, 2004 ballot asking voters to approve a soft drink tax to fund scholarships.
2. If approved, it would impose a tax of \$0.25 on each gallon of soft drinks or the concentrate or powder to produce a gallon of soft drinks beginning January 1, 2005. The tax would be imposed on sales from distributors to retailers.
3. Per capita consumption of soft drinks is 53 gallons per year. (National Soft Drink Association) Montana population will be 990,000 in fiscal 2005. (Department of Revenue based on US Census Bureau projections). Soft drink sales in the half of fiscal 2005 when the tax would be in effect would be 26.235 million gallons (53 gallons/person x 990,000 persons / 2).
4. Collections in fiscal 2005 would be \$6.559 million (\$0.25/gallon x 26.235 million gallons). All collections would be deposited in a new special revenue account for scholarships to units of the Montana university system, community colleges or tribal colleges.
5. Because of the significant revenue it would collect, the Department of Revenue would need to implement a new computer system to administer this tax. To be ready to administer the tax starting January 1, 2005, the department would need to purchase software and begin the process of customizing it before the election in November 2004. Costs to purchase and customize software would be \$1,394,658. Costs for

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office equipment and computers for contract programmers would be \$11,124. Beginning in fiscal 2006, ongoing software maintenance costs would be \$50,000.

6. The Department of Revenue would need an additional 0.75 FTE to process returns and do compliance work. Personnel costs would be \$27,931. Operating costs would be \$5,001, and one-time costs for office equipment and computers in fiscal 2005 would be \$5,800.

Commissioner of Higher Education

7. The Guaranteed Student Loan Program estimates it will take one FTE, grade 10 to administer the citizen scholarship program.
8. Because of the effective date, the FTE will be hired January 2004 and expenses will only accrue for 6 months in this biennium. (1 FTE for 6 months equals .5 FTE)

<u>FISCAL IMPACT:</u>	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
<u>Department of Revenue</u>		
FTE	0.00	0.75
<u>Expenditures:</u>		
Personal Services	\$0	\$27,931
Operating Expenses	0	1,399,659
Equipment	<u>0</u>	<u>16,924</u>
TOTAL	\$0	\$1,444,514
<u>Funding of Expenditures:</u>		
General Fund (01)	\$0	\$1,444,514
<u>Commissioner of Higher Education Program</u>		
FTE	0.00	0.50
<u>Expenditures:</u>		
Personal Services	\$0	\$14,740
Operating Expenses	<u>0</u>	<u>3,000</u>
TOTAL	\$0	\$17,740
<u>Funding of Expenditures:</u>		
State Special Revenue (02) - Scholarship Fund	\$0	\$17,740
<u>Revenues:</u>		
State Special Revenue (02) - Scholarship Fund		\$6,559,000
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)		\$(1,444,514)
State Special Revenue (02) - Scholarship fund		\$6,541,260

LONG-RANGE IMPACTS:

In fiscal 2006, collections would be approximately \$13.1 million. Collections would grow over time as soft drink consumption grows. The Department of Revenue would have ongoing costs of about \$83,000 to administer the tax.

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TECHNICAL NOTES:

1. Section 6 imposes a tax on each gallon of bottled soft drink. The term “bottled soft drink” is not defined. This fiscal note assumes that the term means soft drinks sold in any sealed container, but without a definition, that is not clear. If the term were interpreted to mean soft drinks sold in bottles and not to include soft drinks in cans, revenue would be much lower.
2. The Department of Revenue’s computer system costs were estimated without the use of ITSD/CIO recommended project methodology.
3. The information technology (IT) project required to implement this legislation would require the review and approval of the Chief Information Officer (CIO) as provided for in 1-17-512, MCA.
4. The bill does not contain an appropriation. No appropriation authority exists to expend funds to start the program in the 2005 biennium.

DEDICATION OF REVENUE:

- a) **Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)**

An individual that meets the eligibility requirements of Section 4 and becomes an accepted applicant in the Montana Citizen Scholarship Program is the recipient of the benefit. If this individual has never purchased a soft drink in the State of Montana, they would not pay.

- b) **What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?**

HB 760 would allow for the creation special revenue account contingent upon approval by the electorate in the 2004 general election. This ensures that the funds go for a single purpose (student scholarships) and the Board of Regents or the Montana Legislature cannot appropriate the funds for other uses.

- c) **Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**

No, soft drink consumption and college attendance are unrelated choices made by individuals

- d) **Does the need for this state special revenue provision still exist? ☒ Yes ☐ No (Explain)**

The proceeds from this bill would meet the legal basis for designation as special revenue. MCA 17-1-507 indicates that a revenue source may be dedicated for a specific purpose (special revenue) as long as the taxpayers benefit from the activity, the tax is designated for a specific purpose, or there is need for accountability for the distribution of funds (scholarships). HB 760 is "designated for a specific purpose"

- e) **Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**

Yes, in setting priorities for state spending overall and on student aid legislative committees must be cognizant of separate funding sources and revenue estimates.

- f) **Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)**

While student scholarships are a recognized need, dedication of revenues from sales of soft drinks for this purpose is not.

- g) **How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)**

This dedicated revenue provision would tie revenues to expenditures on scholarships. Since the state funds student aid (scholarships, waivers, work study, and grants) also through the general fund complexity would be increased.